



CFR
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The Chase Manhattan Bank
Government Banking Department
One Chase Square
Rochester, NY 14643

December 16, 1997

Ms. Cynthia L. Johnson
Director
Cash Management Policy & Planning Division
Financial Management Services
US Department of the Treasury, Room 420
401 14th Street, SW
Washington, DC 20277

**Re: Proposed Rule Making Part 208 to Title 31 of the Code of
Federal Regulations Management of Federal Agency Disbursements**

Dear Ms. Johnson:

The Chase Manhattan Bank ("Chase") appreciates the opportunity to comment on the proposed rule making concerning the addition of Part 208 to Title 31 of the Code of Federal Regulations ("CFR") to govern the use of electronic fund transfers for the disbursements of federal payments. Chase is strongly supportive of the position taken by the Department of the Treasury ("Treasury") in its proposed rule making to allow competitive market forces determine the nature of the account that could be provided to "unbanked" recipients of federal payments to allow them to receive such payments electronically. Among American banks, Chase originates the largest number of ACH transactions and is familiar with, and supportive of, federal direct deposit programs. Chase actively encourages recipients of such payments who are its customers to receive them in an electronic form and strongly believes that the use of electronic fund

transfers can achieve the benefits of low cost, accurate and secure payments that are sought by Treasury with its "EFT '99" program (the "Program").

Chase believes that the statutory objective of making virtually all Federal payments other than tax refunds by electronic fund transfer is achievable and at a significant saving to the government over the existing paper based system. Chase believes bringing electronic payments to those who are presently unbanked will best be achieved by offering a very simple account as a means of introducing such presently unbanked payees to the banking system. Once part of that system, should such payees require additional services, they could select from account products presently offered by financial institutions. In order to minimize additional costs and to increase acceptance by financial institutions, it is important that any account devised by Treasury be treated like other accounts at the financial institution with appropriate protections for both consumers and financial institutions.

In its comments set out below, Chase will pay particular attention to those questions raised in the Treasury proposal with regard to the establishment of electronic transfer accounts ("ETAs").

Q. Should Treasury make available a debit card-based account to individuals who are required to receive Federal payments by EFT and who do not have an account of their own with a financial institution?

Chase believes that Treasury should take the steps that are described in the proposal to establish the criteria for the creation of such an account and to allow competitive market forces to determine which financial institutions will provide such accounts to the unbanked.

Q. Should the cost of the account to the recipient be the most important factor for selecting the account structure and/or the account providers, or should the account structure be designed to meet other objectives even if the cost to recipients is increased as a result? If the latter, which objectives? What is an appropriate standard by which to weigh tradeoffs between increased costs and additional account features?

Chase believes that minimizing cost to the recipient should be the primary consideration in the establishment of the account so long as security and convenience to the account holder are not compromised.

Q. Should the account be structured to provide only a basic withdrawal service at the lowest possible cost, with additional service charges for additional features, or should the account offer a range of services at a fixed monthly cost, even if greater than the cost of the basic account?

Chase recommends that the accounts be limited to withdrawals which would include withdrawals made at ATMs and on-line point-of-sale transactions ("POS"). A reasonable number of ATM withdrawals and POS transactions could be included in a fixed monthly pricing which would be easier for recipients to understand than transaction pricing. Point-of-banking ("POB") transactions would be available in many localities where existing ATM and POS networks could provide account access. The use of POS and POB transactions could permit greater access to federal payees to funds, particularly where the balance in an ETA might drop below the minimum dollar amount that an ATM customarily dispenses -- commonly \$10 or \$20 in the New York metropolitan area. Many financial

institutions provide low cost "lifeline" accounts for low income consumers, should any unbanked payee determine that he or she requires additional services such as non-electronic deposits. A simple account limited to allowing electronic access to funds could meet the needs of most of the presently unbanked, and the inclusion of additional, mandated features may drive the cost of such an account up without conferring significant benefit for the majority of ETA holders.

Q. How many withdrawals should be included in the base price of the account? Should the account terms address the charges imposed by automated teller machine owners other than the account provider?

Chase believes that the number of withdrawals and transactions allowed should be governed by the competitive bidding process. Chase does believe that to eliminate confusion and complexity, the number of transactions should be built in to the basic pricing of the ETA. Chase presently offers a program designated "Ready Pay" which provides access to wages for unbanked employees in companies served by Chase. Chase's experience with this program shows that two to three transactions per payroll deposit are initiated by such unbanked employees using such account.

As to the issue of surcharges, such charges cannot be controlled or even effectively anticipated by the account providing institution nor is such institution free to decline such transaction or refuse to pay any surcharge under ATM network rules in effect today. As part of the educational program planned by the government to accompany the introduction of the unbanked to customary banking practice, education on the existence of surcharges and steps that can be taken to avoid having such charges imposed should definitely be included.

Q. Should the account structure provide for additional electronic or nonelectronic deposits within the basic monthly service charge? If so, what number of deposits?

Allowing additional ACH deposits to such an account would not significantly increase the cost to a financial institution of maintaining such account. However, cost would be significantly affected if nonelectronic deposits were allowed or non-ACH electronic payments were permitted, e.g., wire transfers. Both the processing costs associated with such deposits and the additional complexity dealing with them would increase the cost of ETAs. If the account holder finds a need for such additional services after an ETA is opened, many banking institutions provide accounts that contain such features and are designed for low income depositors. In New York, such accounts, designated "life line" accounts, are mandated by state statute.

Q. Should the account provide for some number of third-party payments such as payment for rent or utility bills? If so, how many third-party payments should be provided for and should they be priced in the basic monthly service charge?

A. Chase would recommend that Treasury promote ETAs as a basic benefit access account. Adding features will increase the cost and complexity of an ETA. Means exist today for the making of third party payments which are being used by many unbanked recipients. As was pointed out earlier in these comments, to the extent such services are desired, financial institutions do provide checking and saving accounts tailored to low-income recipients which holders of ETA accounts could explore if they had a need for those services.

Q. Should the account include a savings feature? How would such a feature operate? Would additional free withdrawals or the capability to accept deposits other than the Federal Payment Act to foster savings by the recipient.

Chase's experience with its Ready Pay product has indicated that the majority of users withdraw promptly all the funds placed in such account. Mandating a savings feature would increase the cost and complexity of the ETA without adding significant value for most account holders. Chase, as many other banks do, offers low cost savings accounts for customers maintaining small balances.

Q. How important is a broad geographic reach to meeting the access objectives that most recipients will want? How should Treasury best meet access needs in underserved areas?

A. Granting a broad base of access to unbanked recipients who are assigned ETAs is clearly to their benefit by allowing greater mobility and more convenient access. Such broader geographic access at a lower cost may be achieved by encouraging banks with a wider regional presence to participate in the Program. The encouragement of the use of POS networks which, to date in Chase's experience, have not been involved in imposing surcharges, would also expand the reach of the Program by allowing account access to recipients at more locations both to use funds and to obtain cash. In addition there has been an increase in ATMs that are located in such facilities as convenience stores, mini markets and fast-food location which are linked to financial institutions through regional and national ATM networks. The use of network distribution channels will therefore extend the reach of any card based product.

Q. Should access to the account be provided at outlets in addition to those normally offered by the financial institution providing the account? For example should arrangement be permitted under which third parties may offer other means by which a recipient may, in effect, withdraw funds from the account. If yes, should there be any restriction where additional access may be provided or under what terms it can be offered?

Today, nonbank benefit recipients are using other means to receive benefits and to make payments, including POB facilities operated by check cashers and supermarkets. Nothing in the Federal proposal should preclude the use of such other means absent clear evidence of abuse. The use of such facilities by account holders is not, in many instances, within the control of the account holding institution. Access to ETA's through ATMs, POS devices and POB services may allow third parties to provide services at times and locations that best meet the account holder's needs. However, Treasury should consider how to control potential abuses such as tacking on large additional fees. Many service providers used by the unbanked today to cash federal payment checks are now becoming participants in ATM, POS, and POB networks, thus broadening the range of services.

Q. If additional access is offered through arrangements with third parties, should the cost of this additional access be included in the pricing proposal in the competitive process?

- A. As with ATM surcharge, account providers can not control who may participate in ATM, POS networks or POB facilities nor would it be possible for an account provider to forecast the use of such networks in determining costs.

Q. Which account design could provide the appropriate opportunity for nonfinancial institutions to participate in the delivery of services to federal payment recipients?

- A. Non-financial institutions could be involved in the distribution system for the unbanked as end points in a network where cash could be withdrawn and funds in the account otherwise made available for the use of the account holder, preferably through ATM, POS, or POB access.

In Treasury's analysis of the proposed Part 208, it concludes that the account should be located with a financial institution eligible for federal deposit insurance. Chase strongly concurs with this view. If the unbanked are to be brought into the banking system, it is important that the initial contact be with an institution that assures that the funds on deposit will be adequately protected and subject to regulatory scrutiny. This arrangement, coupled by an adequate distribution system which provides service through others, including non-financial institution, will provide recipients with the most convenient and efficient access to their ETA and provide a strong and workable program.


Treasury's analysis in connection with Section 208.6 concludes that the requirements as to reasonable conditions and proper protection for the account found in the Act should be limited to the accounts opened by the unbanked rather than to accounts presently held by recipients who may subsequently receive benefits electronically. Chase concurs with this view. To do otherwise would interfere with existing satisfactory customer relationship, increase significantly the

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complexity of the delivery of federal electronic payments and interfere with existing free market conditions that to date have worked well in establishing account terms and the services to be provided.

Chase again wishes to express its appreciation for this opportunity to comment one of the most important retail electronic payment delivery issues of recent times.

Very truly yours,



L. Anthony Costantino
Vice President